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FITCHBURG RAILROAD LEASE.

To the Preferred Stockholders of the Fitchburg Railroad:—

We present herewith some facts bearing upon the advisability of your accepting the offer of the Boston and Maine Railroad for a lease of your property, showing in detail the basis of certain general statements made in our previous communication to you. We feel that while the Boston and Maine road has been held up as a "Strong Corporation" and given great credit the Fitchburg has, upon the other hand, suffered in general estimation from misfortunes of long ago and that the owners of the property can hardly realize the true value of it without careful examination, while something of a contrary nature is true as to the Boston and Maine. An examination of the data within reach shows many interesting things, and leads us to certain conclusions which may be stated thus:—

The load of leases now carried by the Boston and Maine road must, at the best, be called perilous.

The Fitchburg road, managed on conservative lines, has spent money freely for those vital necessities, maintenance of way and equipment, while giving moderate dividends, and has to-day the natural results of that course as to its property and financial outlook. The Boston and Maine has not done this and is in a different situation accordingly.

The Fitchburg shows a strong business with growing profits. The Boston and Maine shows nothing of the sort.

In a word, the figures tend to show that the Boston and Maine management has "skinned" its property to maintain large dividends, while the Fitchburg officers have built their property up and rested content with smaller dividends. The details reported for the last seven years by the two roads brought together for comparison show some astonishing results. Thus, it appears that if in that time the Boston and Maine road had paid for maintenance of property on the scale followed by the Fitchburg there would have been for Boston and Maine stockholders annual dividends of

Less than One and One Half Per Cent.

Here is a statement covering the years from 1893 to 1899, both inclusive, showing the average expenditure per year per mile of line for maintenance of way and structures, the average expenditure per year per locomotive for repairs, and the average expenditure per year per freight car for repairs by the Fitchburg road, by the Boston and Maine, and by all the larger railroads of Massachusetts taken together:—

	Fitchburg.	Boston & Maine.	All Massachusetts Roads.
Average expenditure per year per mile of line for maintenance of way and structures, 1893–99	$1,948.73	$1,702.21	$2,146.21
Average expenditure per year per locomotive for repairs	1,592.93	763.35	1,212.27
Average expenditure per year per freight car for repairs	58.54	53.14	57.04

It will be seen that in every item the Fitchburg is well above the average while the Boston and Maine is below it, and the total difference indicated is enormous. The passenger car item is small and does not sensibly affect the result. Taking these figures, with the miles of line operated by each company and the number of locomotives and cars owned by them, respectively, from year to year and there appears a difference between what the Boston and Maine actually paid for maintenance of property and what it would have paid on the scale followed by the Fitchburg through the seven years; thus:—

Shortage in maintenance of way and structures	$2,647,624
Shortage in locomotive repairs	3,612,820
Shortage in freight car repairs	417,652
Total	$6,678,096

It appears that the Boston and Maine road has in the seven years covered by these figures paid $8,845,922 in dividends. If, therefore, it had kept its property up on the Fitchburg scale it would have had applicable to dividends but $2,167,826 — enough to have paid annual dividends of less than 1½ per cent. So much for that.

The Boston and Maine Load.

Fitchburg preferred stockholders opposed to the lease have from the first maintained that the Boston and Maine Railroad lacked the strength to make a lease to it safe. It already guarantees dividends and interest on an amount equal to four times its capital, and, with your road, would have a burden of six times its capital. Here are figures showing the aspect of the case which led President Tuttle two years ago to characterize the property as

"A Rope of Sand."

Boston and Maine Capital Stock	$22,590,575
THE LOAD.	
Boston and Maine Funded Debt	21,900,133
Current Liabilities	8,393,511
Capital of Leased Lines — Dividends guaranteed	43,142,492
Funded Debt of Leased Lines	24,389,000
Total Present Load	$97,825,136
Proposed Addition by Fitchburg Lease:	
Preferred Stock	17,360,000
Funded Debt	22,168,000
New Bonds	5,500,000
Total Load Proposed	$142,853,136

A Full Comparison.

Here is a table showing a full comparison of the business of the two roads for the last seven years: —

Year.	Miles of Line Operated.	Gross Income.	Income Less Operating Expenses.	Fixed Charges. (Interest, taxes, and rent of other roads.)	Net or Divisible Income.	Percentage of "income less operating expenses" applicable to dividends.	Percentage of "gross income" net or applicable to dividends.	Earnings from Transportation per Mile.
				FITCHBURG.				
1893..	450	$7,707,297.69	$2,164,608.68	$1,464,822.31	$699,786.37	30.9	9.	$15,634
1894..	450	6,865,155.48	2,061,244.07	1,543,947.96	517,296.11	25.	7.5	16,485
1895..	457	7,237,723.99	2,266,958.12	1,518,114.98	748,843.14	33.	10.3	14,425
1896..	457	7,606,765.17	2,144,449.13	1,511,722.17	632,726.96	29.5	8.3	15,100
1897..	457	7,155,768.45	2,175,938.37	1,542,639.57	633,298.80	29.1	8.8	16,499
1898..	457	7,359,470.06	2,275,898.75	1,567,639.57	708,259.18	31.1	9.6	15,508
1899..	457	7,649,080.16	2,334,524.74	1,547,227.68	786,797.06	33.7	10.8	15,938
				BOSTON AND MAINE.				
1893..	1,203	$17,801,121.79	$6,092,759.43	$4,075,613.80	$2,017,145.63	33.1	11.3	$13,337
1894..	1,292	16,586,808.86	5,746,948.39	4,406,438.61	1,340,509.78	23.3	8.0	12,362
1895..	1,292	17,456,568.16	5,683,360.24	4,377,079.06	1,306,281.18	22.9	7.4	13,088
1896..	1,716	21,094,975.09	6,588,035.39	5,282,565.95	1,305,469.44	19.8	6.1	11,932
1897..	1,717	20,193,669.59	6,629,397.92	5,360,102.73	1,269,295.19	19.1	6.2	11,425
1898..	1,715	20,430,473.72	6,751,434.73	5,488,011.05	1,263,423.68	18.7	6.1	11,560
1899..	1,715	20,545,731.39	6,833,117.68	5,553,702.66	1,279,415.02	18.7	6.2	11,623

The most casual inspection of these figures will show the relative advantage of the Fitchburg road. It has the larger earnings per mile and percentage of profit, and both columns of figures show growth. The Boston and Maine has in the last few years of business "boom" barely held its own, with a small increase of gross income met by increased expenses and fixed charges. It needs no argument to show the peril of a business enterprise running on a margin of 6 per cent profit, and especially one subject to

such fluctuations as railroad transportation. Moreover, the percentage of the Boston and Maine profit has shrunk to the present figure from 11 per cent in the seven years covered, while in the last four years the fixed charges have increased no less than $271,136, and that with the mileage unchanged. And the earnings per mile of line in the period covered have actually shrunk $1,714 — from $13,337 to $11,623.

A Burdensome Lease.

In respect to these enormous fixed charges it is interesting to note that the Boston and Maine road is paying 12 per cent to the stockholders of one road, and that under an arrangement condemned by the Massachusetts railroad commissioners in unmeasured terms when it was made. Here is what appeared in respect to it in the Massachusetts commissioners' report for 1894 : —

"The Connecticut River road was leased January 1, 1893, for the term of ninety-nine years to the Boston and Maine. The lease in this case guarantees the payment by the lessee of 10 per cent annual dividends to the stockholders of the lessor company. This rate is not without precedent in leases made some years ago. In the light of more recent railroad and financial experience it is an extreme, not to say an excessive, dividend rate to guarantee on the stock of any railroad company for a century to come. If justifiable in any case it could only be where the leased road was possessed of an extraordinary earning capacity or an extraordinary surplus — one if not both.

"On the day of the execution of the lease in question, by evident prearrangement of the parties, a dividend of 50 per cent, amounting to $1,290,000, was made to the Connecticut River stockholders. The dividend was paid by issuing to the stockholders ten-year 4 per cent scrip or bonds, thereby creating a funded debt against the company equal to one half of its whole capital stock. It goes without saying that an issue of bonds to pay a stockholders' dividend is contrary to good practice and to sound principles of corporate financiering.

"The Boston and Maine is bound by the express terms of the lease to pay the interest on these dividend bonds. The bonds are to be redeemed at their maturity in whole or in part by the issue of other bonds or securities on which, and on any further extensions or renewals of which, the lessee company is also bound to pay interest; so that, adding to the guaranteed annual dividend of 10 per cent the interest on the dividend bonds and future reissues of the same, the lessee is virtually bound to pay to the stockholders of the lessor 12 per cent per annum during the term of the lease.

"The Connecticut River stockholders had been receiving for many years regular and liberal cash dividends on their shares, ranging for the last thirty years between 8 and 10 per cent yearly. The rates of the company for fare and freight have always been relatively, not to say excessively, high as compared with those of other Massachusetts companies. If its rates had been as low per mile as the average for the Massachusetts roads the income of the company from all sources, after paying the annual expenses and charges, would have fallen much short in any recent year of yielding any dividend whatever for the stockholders. Even with its high scale of rates the actual net income of the company, as returned for several years preceding the lease, was not large enough to pay more than two thirds of the annual fixed charges under the lease for dividends and bonded dividend interest, the payment of which is guaranteed by the lessee.

"The surplus of the company prior to the issue of the dividend bonds was the accumulation of overpayments by the public in excess of the cost of transportation and in excess of the ample returns which the stockholders had received from year to year on their invested capital. This surplus clearly belonged to or was held in trust for the public rather than the stockholders of the company. The immediate effect of the creation of the bonded debt of $1,290,000 in payment of the 50 per cent dividend was to change the surplus of the company — $1,000,000 in round numbers — into a deficit of about $250,000, and thus to cause a serious impairment of the capital stock. In this despoiled condition, stripped of its entire surplus and with one tenth of its capital wiped out, the road passed, a costly trophy, into the hands of the lessee.

"The division of more than a third part of the entire net assets of the lessor company among its stockholders on the eve of the lease was a gross perversion of the trusts on which its franchises and property were held, and would have been a gross fraud upon the lessee if done without the full knowledge and consent of the latter. The assumption by the lessee company of an obligation to pay a perpetual dividend rental equivalent to 12 per cent on the entire capital stock of the lessor in the then denuded condition of the latter company — a burden which could be carried, if at all, only by shifting it upon the public by the exaction of excessive charges for transportation — was wholly unjustifiable, both from a business standpoint and as against public polity. Taken as a whole and regarded in any light, it is safe to say that no more unconscionable transaction has occurred in the railroad history of the State."

Another "Costly Trophy."

Another burdensome enterprise on the Boston and Maine's hands is the St. Johnsbury and Lake Champlain Railroad, in Vermont. It appeared in 1897, the last year for which a report is at hand, that the operating expenses of this line were more than 105 per cent on its gross earnings. This left 5 per cent of its earnings and all fixed charges to be paid as a dead loss. There was in 1897 a deficit of over $1,000,000 existing, but the Boston and Maine reports fail to show how it was cared for. An expert who has examined the matter suggests that the amount may be included in the sum due from companies and individuals reported by the Boston and Maine road in its list of "assets." It may be noted in passing that the Boston and Maine road reports over $400,000 of the stock and bonds of this Vermont road among its assets at par.

Conclusion.

We submit these facts and ask for them a careful consideration. Two questions are presented to us: —

Is it wise, in view of the situation of the Fitchburg road, to lease it for 5 per cent?

Is it safe, in view of the situation of the Boston and Maine road, to make a lease to that corporation?

Each stockholder must answer these questions for himself. We believe that the facts shown should lead to an unquestioning answer in the negative to both.

The figures above given are all from the reports of Massachusetts Railroad Commission or directly from the annual reports of the railroads, those relating to the St. Johnsbury and Lake Champlain Road only excepted.

If you have not already done so we ask you to fill out and return to us the proxies heretofore sent you by us, to be voted on against the lease.

W. SEWARD WEBB,
JAMES LAWRENCE,
For the Committee opposed to leasing the Fitchburg Railroad.

Boston, March 12, 1900.

(P. O. Box 3553.)

P. S. — March 14. The form of lease of the road is not yet agreed upon. At a meeting of the Fitchburg board of directors held yesterday, to consider the lease in detail, it was announced that the document was not completed. You are asked to vote in the dark for a lease you have not seen, and one that you will have no opportunity to examine. Neither can lawyers examine it for you before the date set for the meeting, March 21.

A proxy sent us now will operate as a revocation of any proxy previously sent.

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